

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA

INDEPENDENT AUDITORS' REPORTS  
FINANCIAL STATEMENTS  
AND OTHER INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2016 AND 2015

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
JUNE 30, 2016

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CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
JUNE 30, 2016

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>EXPIRES</u>
Todd Wetherell	Chairman	January 2020
Mike Fox	Treasurer	January 2018
Mike O'Neal	Secretary	January 2020
Neal Rogge	Board Member	January 2018
Dan Mott	Board Member	January 2020
Brian Lauck	Airport Director	May 2017
Karen Aduddell	Clerk	Indefinite

# BURKHARDT & DAWSON

Certified Public Accountants

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Cherokee Aviation Authority

We have audited the accompanying financial statements of Cherokee Aviation Authority as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting as described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of Cherokee Aviation Authority as of June 30, 2016 and 2015, and the changes in its cash basis financial position for the years then ended in accordance with the basis of accounting described in Note 1.

### **Basis of Accounting**

As described in Note 1, the financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to that matter.

### **Other Matters**

#### *Other Information*

The other information, Management's Discussion and Analysis on pages 4 through 7, has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2017 on our consideration of Cherokee Aviation Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cherokee Aviation Authority's internal control over financial reporting and compliance.

BURKHARDT & DAWSON, CPA's

  
\_\_\_\_\_  
Certified Public Accountants

Cherokee, Iowa  
February 14, 2017

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Cherokee Aviation Authority provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities of Cherokee Aviation Authority is for the fiscal years ended June 30, 2016 and 2015. We encourage readers to consider this information in conjunction with the Authority's financial statements, which follow.

### **2016 FINANCIAL HIGHLIGHTS**

- Operating receipts decreased 5%, or approximately \$13,000, from fiscal year 2015 to fiscal year 2016.
- Operating disbursements increased 1%, or approximately \$2,000, from fiscal year 2015 to fiscal year 2016.
- The Authority's cash balance increased 35%, or approximately \$99,000, from June 30, 2015 to June 30, 2016.

### **USING THIS ANNUAL REPORT**

The Authority has elected to present its financial statements on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as the timing for recognizing revenues, expenses and the related assets and liabilities. Under the cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of the use of the cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the cash basis of accounting.

This discussion and analysis is intended to serve as an introduction to the financial statements. The annual report consists of the financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the financial statements and provides an analytical overview of the Authority's financial activities.
- The Statements of Cash Receipts, Disbursements and Changes in Cash Balances present information on the Authority's operating receipts and disbursements, non-operating receipts and disbursements and whether the Authority's cash basis financial position has improved or deteriorated as a result of the years' activities.

- Notes to Financial Statements provide additional information, essential to a full understanding of the data provided in the financial statements.

## FINANCIAL ANALYSIS OF THE AUTHORITY

### *Statements of Cash Receipts, Disbursements and Changes in Cash Balances*

The purpose of the statements is to present the receipts received by the Authority and the disbursements paid by the Authority, both operating and non-operating. The statements also present fiscal snapshots of the cash balance at year end. Over time, readers of the financial statements are able to determine the Authority's cash basis financial position by analyzing the increase and decrease in the Authority's cash balance.

Operating receipts are received for hangar rentals, fuel sales, land rent and tax revenues of the Authority. Operating disbursements are disbursements paid to operate the airport. Non-operating receipts and disbursements are for interest on investments, grant receipts, insurance proceeds, equipment sales, equipment purchases, and grant expenses. A summary of cash receipts, disbursements and changes in cash balance for the years ended June 30, 2016 and June 30, 2015 is as follows:

CHANGES IN CASH BALANCE		
	YEARS ENDED JUNE 30,	
	2016	2015
Operating Receipts:		
Tax Revenue	\$ 78,681	\$ 88,048
Hangar Rent	19,223	18,936
Fuel Sales	125,506	131,727
Land Rent	7,500	5,000
Other Income	49	103
<b>TOTAL OPERATING RECEIPTS</b>	<b>\$ 230,959</b>	<b>\$ 243,814</b>
Operating Disbursements:		
Fuel Purchased for Resale	\$ 99,739	\$ 111,554
Contract Services Expense	41,600	36,621
Others	50,879	42,092
<b>TOTAL OPERATING DISBURSEMENTS</b>	<b>\$ 192,218</b>	<b>\$ 190,267</b>
<b>EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS</b>	<b>\$ 38,741</b>	<b>\$ 53,547</b>

## CHANGES IN CASH BALANCE

	YEAR ENDED JUNE 30,	
	2016	2015
Non-Operating Receipts (Disbursements):		
Interest on Investments	\$ 4,060	\$ 4,980
Grant Receipts	126,820	100,568
Insurance Proceeds	0	1,475
Capital Improvements & Related Engineering Fees	(9,797)	0
Grant Expenses	(57,432)	(270,194)
Equipment Purchases	(3,770)	(5,211)
NET NON-OPERATING RECEIPTS (DISBURSEMENTS)	\$ 59,881	\$ (168,382)
CHANGE IN CASH BALANCE	\$ 98,622	(114,835)
CASH BALANCE - BEGINNING OF YEAR	283,981	398,816
CASH BALANCE - END OF YEAR	<u>\$ 382,603</u>	<u>\$ 283,981</u>
Cash Basis Fund Balance:		
Restricted for - Capital Reserve Fund	\$ 246,649	\$ 214,998
Unrestricted	135,954	68,983
TOTAL CASH BASIS FUND BALANCE	<u>\$ 382,603</u>	<u>\$ 283,981</u>

In fiscal year 2016, operating receipts decreased \$12,855, or 5%, from fiscal year 2015. The decrease was primarily a result of a decrease in tax revenue in fiscal year 2016. In fiscal year 2016, operating disbursements increased by \$1,951, or 1%, from fiscal year 2015. The increase in disbursements was primarily due to the combination of decreases in fuel purchases and increases in audit fees, grounds and building maintenance and contract service expenses.

A portion of the Authority's cash balance, \$246,649 (64%), is restricted for a capital reserve fund as required by the agreement with the City of Cherokee and Cherokee County. The remaining cash balance, \$135,954 (36%), is unrestricted and can be used to meet the Authority's obligations as they come due. The restricted cash balance increased \$31,651, or 15% during the year. The increase was due to less funds being used for capital improvements and equipment purchases. The unrestricted cash balance increased \$66,971, or 97%, during the year primarily due to a decrease in grant expenses and an increase in grant reimbursements. There had also been decreases in fuel purchased for resale and an increase in land rent receipts.

**LONG TERM DEBT**

At June 30, 2016 and 2015, the Authority had no long term debt outstanding.



## **ECONOMIC FACTORS**

The financial position of the Authority improved in the current fiscal year, as grant receipts increased its cash balance. The current condition of the economy in the state continues to be a concern for Authority officials. Decreases in tax revenue will also affect operating and capital reserve funds. Some of the realities that may potentially become challenges for the Authority to meet are:

- Facilities require constant maintenance and upkeep.
- The construction of a new 8-unit tee hangar will deplete the current capital reserves.
- A loan of \$150,000 for the construction of the tee hangar will be added as a long term liability, with repayment coming from tax revenue over the next ten years.
- Technology continues to expand and current technology becomes outdated, presenting an ongoing challenge to maintain up to date technology at a reasonable cost.

The Authority anticipates the current fiscal year will be one of transition as it continues to make important decisions regarding the future expansion plans of the Airport.

## **CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Authority's finances and to show its accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cherokee Aviation Authority, 1201 South Second Street, Cherokee, Iowa 51012.

FINANCIAL STATEMENTS

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
STATEMENTS OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
OPERATING RECEIPTS:		
Tax Revenue	\$ 78,681	\$ 88,048
Hangar Rent	19,223	18,936
Fuel Sales	125,506	131,727
Land Rent	7,500	5,000
Other Income	49	103
TOTAL OPERATING RECEIPTS	<u>\$ 230,959</u>	<u>\$ 243,814</u>
OPERATING DISBURSEMENTS:		
Fuel Purchased for Resale	\$ 99,739	\$ 111,554
Bank Charges and Check Printing	212	101
Audit Fees	5,980	3,850
Miscellaneous Fees	552	727
Dues and Memberships	340	331
Licenses and Permits	359	9
Lease Expense	150	150
Grounds and Buildings Maintenance	11,468	5,801
Fuel Tank Maintenance	890	540
Contract Service Expense	41,600	36,621
Fuel Commissions	8,771	6,975
Insurance Expense	8,213	8,086
Fuel for Equipment	1,986	2,189
Equipment Maintenance	5,207	5,991
Utilities - Gas	211	194
Electricity	3,246	3,518
Telephone	2,055	2,287
Water	429	450
Office Supplies	149	-
Miscellaneous Supplies	81	247
Postage	205	245
Other Expense	375	401
TOTAL OPERATING DISBURSEMENTS	<u>\$ 192,218</u>	<u>\$ 190,267</u>
EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS	<u>\$ 38,741</u>	<u>\$ 53,547</u>

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
STATEMENTS OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
NON-OPERATING RECEIPTS (DISBURSEMENTS):		
Interest on Investments	\$ 4,060	\$ 4,980
Grant Receipts - Taxilane Rehabilitation Project	105,189	26,679
Grant Receipts - AGIS Survey	15,852	73,889
Grant Receipts - Threshold Relocation Project	5,779	-
Insurance Proceeds	-	1,475
Capital Improvements and Related Engineering Fees	(9,797)	-
Grant Expenses - Taxilane Rehabilitation Project	(6,743)	(177,893)
Grant Expenses - AGIS Survey	(15,442)	(89,683)
Grant Expenses - Threshold Relocation Project	(3,805)	(2,618)
Grant Expenses - Master Plan Update	(31,442)	-
Equipment Purchases	(3,770)	(5,211)
NET NON-OPERATING RECEIPTS (DISBURSEMENTS)	<u>\$ 59,881</u>	<u>\$ (168,382)</u>
CHANGES IN CASH BALANCE	\$ 98,622	\$ (114,835)
CASH BALANCE - BEGINNING OF YEAR	<u>283,981</u>	<u>398,816</u>
CASH BALANCE - END OF YEAR	<u><u>\$ 382,603</u></u>	<u><u>\$ 283,981</u></u>
CASH BASIS FUND BALANCE:		
Restricted for:		
Capital Reserve Fund	\$ 246,649	\$ 214,998
Unrestricted	<u>135,954</u>	<u>68,983</u>
TOTAL CASH BASIS FUND BALANCE	<u><u>\$ 382,603</u></u>	<u><u>\$ 283,981</u></u>

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Cherokee Aviation Authority was formed in 2003 pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Authority is to develop, operate and maintain an airport and hangars in Cherokee County on behalf of the units of government, which are members of the Authority.

The governing body of the Authority is a Board of Directors. The City of Cherokee appoints two Board members who shall be residents of the City of Cherokee, Iowa; and Cherokee County appoints two Board members who shall be residents of the unincorporated territory of Cherokee County, Iowa. One member of the Board shall be a resident of the unincorporated territory of Cherokee County and selected by the Cherokee Aviation Authority Board with approval by the County Board of Supervisors and the Cherokee City Council. Each member of the Board has one vote.

REPORTING ENTITY - For financial reporting purposes, Cherokee Aviation Authority has included all funds, organizations, agencies, boards, commissions and authorities. The Authority has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Authority to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Authority. The Authority has no component units which meet the Governmental Accounting Standards Board criteria.

BASIS OF PRESENTATION – The accounts of the Authority are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

BASIS OF ACCOUNTING – The Authority maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Authority are

CHEROKEE AVIATION AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015

prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present the financial position and results of operations of the Authority in accordance with U.S. generally accepted accounting principles.

**RESTRICTED FUNDS** – Restricted funds are set aside for payment of future capital improvements. The amended agreement with the City of Cherokee and Cherokee County requires 40% of the tax levy to be put in a capital reserve fund. The original agreement required 60%, but this was amended to 40% per a September 14, 2004 agreement for a two-year period. As of March 2007, this amendment was effective for the life of the 28E Agreement. As of June 30, 2016, part of the restricted funds has been used to pay for grant project expenses.

**USE OF ESTIMATES** – The Authority uses estimates and assumptions in preparing these financial statements in accordance with the cash basis of accounting. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

**DATE OF MANAGEMENT'S REVIEW** – Management has evaluated subsequent events through February 14, 2017, the date which the financial statements were issued.

**NOTE 2 – CASH AND INVESTMENTS:**

The Authority's deposits in banks at June 30, 2016 and 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The Authority is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Authority; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2016 and 2015 the Authority had certificates of deposit.

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015

NOTE 3 – RISK MANAGEMENT:

The Authority is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 746 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Authority's property and casualty contributions to the Pool are recorded as disbursements from its operating funds at the time of payment to the Pool. The Authority's contributions to the Pool for the years ended June 30, 2016 and 2015 were \$4,114 and \$4,000, respectively.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Authority's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through

CHEROKEE AVIATION AUTHORITY  
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reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Authority's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the Authority's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The Authority also carries commercial insurance purchased from other insurers for coverage associated with airport owners and operators general liability in the amount of \$1,500,000, pollution liability on underground tanks in the amount of \$1,000,000, and an employee blanket crime bond in the amount of \$50,000. The Authority assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 4 – AIRPORT OPERATOR CONTRACT:**

The Authority has entered into a contract with a manager for the operation of the airport. Under the contract, the contractor is to operate the airport site in compliance with all applicable laws, rules and regulations. The contractor is to furnish all labor, tools and equipment necessary for operation. For these services, the operator was paid \$38,000 and \$33,750 during the years ended June 30, 2016 and 2015, respectively, plus commissions based on fuel sales of \$8,771 and \$6,975, respectively.

**NOTE 5 – RELATED PARTIES:**

The clerk is employed at State Savings Bank where the Authority has bank accounts and certificates of deposits. The clerk was paid \$3,600 and \$2,871 during the years ended June 30, 2016 and 2015, respectively.



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Brain Lauck, Airport Director and owner of Lauck Aviation, purchased fuel from the Authority of \$4,859 and \$6,554 for the years ended June 30, 2016 and 2015, respectively.

The City of Cherokee is a member of the 28E agreement with the Authority. The Authority paid the City for a lease of \$150 and insurance premiums of \$4,114 for the year ended June 30, 2016. The Authority paid the City for equipment maintenance of \$523, a lease of \$150 and insurance premiums of \$4,000 for the year ended June 30, 2015.

**NOTE 6 – RENT INCOME:**

The Authority has a verbal operating lease on 72 acres of farm ground with an unrelated party. The lease agreement is negotiated annually with the annual payment being made in the fall. One stipulation is that the tenant is required to plant low crop. The cost of this land is recorded by the City of Cherokee, since they own the land.

Land rental income resulted in income of \$7,500 and \$5,000, for the years ended June 30, 2016 and 2015, respectively.

**NOTE 7 – LEASES:**

On February 1, 2014, the Authority renewed leased property from the City of Cherokee, Iowa under a ten year operating lease. Rent payments at June 30, 2016 and 2015 are \$150 and \$150, respectively.

Future minimum lease payments required under the operating leases for the year ended June 30, 2016 are as follows:

<u>YEAR ENDED JUNE 30,</u>	<u>AMOUNT</u>
2017	\$ 150
2018	\$ 150
2019	150
2020	150
2021	150
Thereafter	300
<b>TOTAL MINIMUM LEASE PAYMENTS</b>	<u><b>\$ 1,050</b></u>

CHEROKEE AVIATION AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS  
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NOTE 8 – COMMITMENT:

The Authority signed a grant agreement for \$125,813, including change orders, in August 2015 for the Threshold Relocation Project. The project had costs of \$3,805 and \$2,618 at June 30, 2016 and 2015. There is a remaining commitment of \$119,390 at June 30, 2016. The maximum reimbursement from the Federal Aviation Administration will be 90% of the allowable project costs.

The Authority signed a grant agreement for \$85,000 in September 2015 for the Airport Master Plan Update. The project had costs of \$31,442 and \$-0- at June 30, 2016 and 2015. The maximum reimbursement from the Federal Aviation Administration will be 90% of the allowable costs. There is a remaining commitment of \$53,557 at June 30, 2016.

The Authority signed a grant agreement for \$18,000 in September 2015 for the Land Use Permit Project. The project had costs of \$-0- and \$-0- at June 30, 2016 and 2015. The maximum reimbursement from the Iowa Department of Transportation will be 85% of the allowable costs. There is a remaining commitment of \$18,000 at June 30, 2016.

NOTE 9 – SUBSEQUENT EVENTS:

The Authority signed a grant agreement for \$320,292 in September 2016 for the Tee Hangar Construction Project. The project had not been started prior to June 30, 2016. The maximum reimbursement from the Iowa Department of Transportation will be 47% of the allowable project costs, up to an estimated amount of \$150,537.

The Authority signed a grant agreement for \$159,708 in September 2016 for the Taxilane and Approach Paving Project. The project had not been started prior to June 30, 2016. The maximum reimbursement from the Iowa Department of Transportation will be 50% of the allowable project costs, up to an estimated amount of \$79,854.

The Authority signed various construction contracts totaling \$633,970 in relation to the Tee Hangar Construction and Taxilane and Approach Paving Projects in October of 2016. The project had not been started prior to June 30, 2016.

Total Contracts	\$ 633,970
Tee Hangar Reimbursement	(150,537)
Taxilane and Approach Paving Reimbursement	(79,854)
Cherokee Aviation Authority's Portion of Costs	<u>\$ 403,579</u>

The Authority will use reserves and other financing options to cover the remaining portion of the costs.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AUDITS OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

# BURKHARDT & DAWSON

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AUDITS OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

To the Board of Directors of  
Cherokee Aviation Authority

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Cherokee Aviation Authority as of and for the years ended June 30, 2016 and 2015, and the related notes to financial statements, and have issued our report thereon dated February 14, 2017. Our report expressed an unmodified opinion on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles

## Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered Cherokee Aviation Authority's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cherokee Aviation Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Cherokee Aviation Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Cherokee Aviation Authority's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We consider the deficiencies described in the accompanying Schedule of Findings as items A, B, and C to be material weaknesses and significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Cherokee Aviation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Authority's operations for the years ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audits of the financial statements of the Authority. Since our audits were based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### **Cherokee Aviation Authority's Responses to Findings**

Cherokee Aviation Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Cherokee Aviation Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Cherokee Aviation Authority during the course of our audits. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BURKHARDT & DAWSON, CPA's

Burkhardt & Dawson, CPA's  
Certified Public Accountants

Cherokee, Iowa  
February 14, 2017

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2016

FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

- A. SEGREGATION OF DUTIES – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One person has primary control over charge accounts, including billing, deposit preparation, posting transactions to accounting records, reconciling payments to receivable records and also grant reimbursement requests and grant contracts recording and reconciling.

RECOMMENDATION – The Authority should designate a member of the Board to provide additional control through review of financial and grant transactions to help ensure accounts receivable charges and payments on account are properly recorded and deposited intact and also to ensure grant reimbursement requests and subsequent receipts are properly recorded and deposited.

RESPONSE – The Authority has designated a member of the Board to review banking account activity on a monthly basis. All board members review financial activity during each monthly meeting. Checks to pay bills are written by the clerk, but only authorized members of the Authority can sign the checks. All accounts payable are reviewed and approved monthly by the board. A schedule of payments and reimbursements for each grant will be reviewed by the board monthly.

CONCLUSION – Response accepted.

- B. FINANCIAL REPORTING – While management is capable of preparing accurate financial statements that provide information sufficient for the members of the Cherokee Aviation Authority to make management decisions, reporting financial data reliably in accordance with another comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2016

RECOMMENDATION – Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements.

RESPONSE – Management will consider obtaining additional knowledge regarding the basis of accounting.

CONCLUSION – Response accepted.

- C. MINUTES – The Board did not document the approval of all material transactions in the minutes.

RECOMMENDATION – Even if the Board has given the Clerk approval to cash in, renew or reinvest CD's, the Board should still approve all material transactions and have them documented in the minutes.

RESPONSE – In the future, all material transactions will be approved by the board and documented in the minutes. Missing transaction occurred before comments from prior year audit.

CONCLUSION – Response accepted.

OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING:

- A. QUESTIONABLE DISBURSEMENTS – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- B. TRAVEL EXPENSES – No disbursements of Authority money for travel expenses of spouses of Authority officials or employees were noted.
- C. AUTHORITY MINUTES – No transactions were found that we believe should have been approved in the Authority minutes but were not, except as noted in C above. However, the minutes, including the schedule of bills allowed, were not published as required by Chapter 28E.6(3) of the Code of Iowa.

RECOMMENDATION – The Authority should ensure the minutes, including the schedule of bills allowed, are published as required.



CHEROKEE AVIATION AUTHORITY  
CHEROKEE, IOWA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2016

RESPONSE – The Authority meeting minutes and approved expenses are published on the City of Cherokee website monthly for public view and signed copies of the minutes are on hand at the City Hall for public view. The Authority members feel that the cost of publishing the minutes in a local paper would be an excessive expense.

CONCLUSION – Response accepted.

- D. DEPOSITS AND INVESTMENTS – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Authority's investment policy were noted. The Authority has adopted a depository resolution at June 30, 2016.